

108TH CONGRESS
1ST SESSION

H. R. 1686

To reward the hard work and risk of individuals who choose to live in
and help preserve America's small, rural towns, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 9, 2003

Mr. CARSON of Oklahoma introduced the following bill; which was referred to
the Committee on Ways and Means, and in addition to the Committees
on Education and the Workforce, and Agriculture, for a period to be sub-
sequently determined by the Speaker, in each case for consideration of
such provisions as fall within the jurisdiction of the committee concerned

A BILL

To reward the hard work and risk of individuals who choose
to live in and help preserve America's small, rural towns,
and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “New Homestead Economic Opportunity Act”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference
 2 shall be considered to be made to a section or other provi-
 3 sion of the Internal Revenue Code of 1986.

4 (c) TABLE OF CONTENTS.—The table of contents for
 5 this Act is as follows:

Sec. 1. Short title; etc.

TITLE I—NEW HOMESTEAD OPPORTUNITIES

Sec. 101. Loans for leadership initiative.

Sec. 102. Credit for certain rural homebuyers.

Sec. 103. Capital loss deduction allowed with respect to sale or exchange of
 principal residence in certain rural areas.

Sec. 104. Individual homestead accounts.

TITLE II—INCENTIVES FOR MAIN STREET BUSINESSES

Sec. 201. Rural investment tax credit.

Sec. 202. Accelerated depreciation for rural investment property.

TITLE III—NEW HOMESTEAD VENTURE CAPITAL FUND

Sec. 301. New homestead venture capital fund.

6 **TITLE I—NEW HOMESTEAD** 7 **OPPORTUNITIES**

8 **SEC. 101. LOANS FOR LEADERSHIP INITIATIVE.**

9 (a) DEFINITIONS.—In this section:

10 (1) DEGREE.—The term “degree” means an as-
 11 sociate’s or bachelor’s degree awarded by an institu-
 12 tion of higher education.

13 (2) INSTITUTION OF HIGHER EDUCATION.—The
 14 term “institution of higher education” has the
 15 meaning given the term in section 101 of the Higher
 16 Education Act of 1965 (20 U.S.C. 1001).

1 (3) QUALIFYING COUNTY.—The term ‘quali-
2 fying county’ means any county which—

3 (A) is outside a metropolitan statistical
4 area (defined as such by the Office of Manage-
5 ment and Budget), and

6 (B) during the 20-year period ending with
7 the calendar year preceding the date of enact-
8 ment of this Act, has a net out-migration of in-
9 habitants from the county of at least 10 percent
10 of the population of the county at the beginning
11 of such period.

12 (4) SECRETARY.—The term “Secretary” means
13 the Secretary of Education.

14 (b) PROGRAM.—

15 (1) IN GENERAL.—The Secretary shall carry
16 out a program of assuming the obligation to repay,
17 pursuant to subsection (c), a loan made, insured, or
18 guaranteed under part B, D, or E of title IV of the
19 Higher Education Act of 1965 (20 U.S.C. 1071 et
20 seq., 20 U.S.C. 1087a et seq., and 20 U.S.C.
21 1087aa et seq.), excluding loans made under section
22 428B of such Act or comparable loans made under
23 part D of such Act, for any borrower who—

24 (A) completes a degree;

25 (B) resides in a qualifying county; and

1 (C) is employed in a qualifying county.

2 (2) REGULATIONS.—The Secretary is author-
3 ized to prescribe such regulations as may be nec-
4 essary to carry out the provisions of this section.

5 (c) LOAN REPAYMENT.—

6 (1) IN GENERAL.—The Secretary shall assume
7 the obligation to repay, after each of the first 5
8 years of the residency and employment described in
9 subparagraphs (B) and (C) of subsection (b)(1) that
10 occur after the date of enactment of this section, the
11 percentage described in paragraph (2) of the total
12 amount of all loans made to a student under the
13 provisions of the Higher Education Act of 1965 as
14 described in subsection (b)(1), up to a maximum
15 amount of \$3,000 each year.

16 (2) PERCENTAGES.—The percentage of repay-
17 ment under paragraph (1) shall be—

18 (A) 7.5 percent of the total amount for
19 each of the first and second years;

20 (B) 10 percent of the total amount for
21 each of the third and fourth years; and

22 (C) 15 percent of the total amount for the
23 fifth year.

24 (3) CONSTRUCTION.—Nothing in this section
25 shall be construed to authorize the refunding of any

1 repayment of a loan made under part B, D, or E
2 of title IV of the Higher Education Act of 1965.

3 (4) INTEREST.—If a portion of a loan is repaid
4 by the Secretary under this section for any year, the
5 proportionate amount of interest on such loan which
6 accrues for such year shall be repaid by the Sec-
7 retary so long as the total amount repaid by the
8 Secretary in any 1 year does not exceed \$3,000.

9 (d) REPAYMENT TO ELIGIBLE LENDERS.—The Sec-
10 retary shall pay to each eligible lender or holder for each
11 fiscal year an amount equal to the aggregate amount of
12 loans which are subject to repayment pursuant to this sec-
13 tion for such year.

14 (e) APPLICATION FOR REPAYMENT.—

15 (1) IN GENERAL.—An eligible borrower desiring
16 loan repayment under this section shall submit a
17 complete and accurate application to the Secretary
18 at such time, in such manner, and containing such
19 information as the Secretary may require.

20 (2) CONDITIONS.—An eligible borrower may
21 apply for loan repayment under this section after
22 completing each year of qualifying residency and em-
23 ployment. The eligible borrower shall receive forbear-
24 ance while engaged in qualifying residency and em-

1 ployment unless the borrower is in deferment while
2 so engaged.

3 (f) DEFINITION OF ELIGIBLE BORROWER.—In this
4 section the term “eligible borrower” means any borrower
5 who is not in default on any of the borrower’s student
6 loans under part B, D, or E of title IV of the Higher
7 Education Act of 1965.

8 (g) AUTHORIZATION OF APPROPRIATIONS.—

9 (1) LOAN REPAYMENT.—There are authorized
10 to be appropriated to carry out this section such
11 sums as may be necessary for fiscal year 2003 and
12 each of the 5 succeeding fiscal years.

13 (2) PERKINS LOAN FUNDS.—There are author-
14 ized to be appropriated such sums as may be nec-
15 essary for fiscal year 2003 and each of the 5 suc-
16 ceeding fiscal years for Federal capital contributions
17 to student loan funds established under part E of
18 title IV of the Higher Education Act of 1965.

19 (h) REPAYMENT EXCLUDED FROM GROSS IN-
20 COME.—Section 108(f)(1) (relating to student loans) is
21 amended by inserting “or pursuant to section 101 of the
22 New Homestead Economic Opportunity Act” after “em-
23 ployers”.

1 **SEC. 102. CREDIT FOR CERTAIN RURAL HOMEBUYERS.**

2 (a) IN GENERAL.—Subpart A of part IV of sub-
3 chapter A of chapter 1 (relating to nonrefundable personal
4 credits) is amended by inserting before section 26 the fol-
5 lowing:

6 **“SEC. 25C. PURCHASE OF RESIDENCES BY CERTAIN RURAL**
7 **HOMEBUYERS.**

8 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
9 dividual who purchases a qualified residence in a quali-
10 fying county during any taxable year, there shall be al-
11 lowed as a credit against the tax imposed by this chapter
12 for the taxable year an amount equal to the lesser of—

13 “(1) 10 percent of the purchase price of the
14 residence, or

15 “(2) \$5,000.

16 “(b) LIMITATIONS.—

17 “(1) LIMITATION BASED ON AMOUNT OF
18 TAX.—The credit allowed under subsection (a) for
19 any taxable year shall not exceed the excess of—

20 “(A) the sum of the regular tax liability
21 (as defined in section 26(b)) plus the tax im-
22 posed by section 55, over

23 “(B) the sum of the credits allowable
24 under this subpart (other than this section and
25 section 23) and section 27 for the taxable year.

1 “(2) MARRIED INDIVIDUALS FILING JOINTLY.—

2 In the case of a husband and wife who file a joint
3 return, the credit under this section is allowable only
4 if the residence is a qualified residence with respect
5 to both the husband and wife, and the amount speci-
6 fied under subsection (a)(2) shall apply to the joint
7 return.

8 “(3) MARRIED INDIVIDUALS FILING SEPA-

9 RATELY.—In the case of a married individual filing
10 a separate return, subsection (a)(2) shall be applied
11 by substituting ‘\$2,500’ for ‘\$5,000’.

12 “(4) OTHER TAXPAYERS.—If 2 or more individ-

13 uals who are not married purchase a qualified resi-
14 dence, the amount of the credit allowed under sub-
15 section (a) shall be allocated among such individuals
16 in such manner as the Secretary may prescribe, ex-
17 cept that the total amount of the credits allowed to
18 all such individuals shall not exceed \$5,000.

19 “(c) DEFINITIONS.—For purposes of this section—

20 “(1) QUALIFIED RESIDENCE.—The term ‘quali-

21 fied residence’ has the same meaning as when used
22 in section 163(h).

23 “(2) QUALIFYING COUNTY.—The term ‘quali-

24 fying county’ means any county which—

1 “(A) is outside a metropolitan statistical
2 area (defined as such by the Office of Manage-
3 ment and Budget), and

4 “(B) during the 20-year period ending
5 with the calendar year preceding the date of the
6 enactment of this section, has a net out-migra-
7 tion of inhabitants from the county of at least
8 10 percent of the population of the county at
9 the beginning of such period.

10 “(3) PURCHASE AND PURCHASE PRICE.—The
11 terms ‘purchase’ and ‘purchase price’ have the
12 meanings provided by section 1400C(e).

13 “(d) CARRYFORWARD OF UNUSED CREDIT.—If the
14 credit allowable under subsection (a) for any taxable year
15 exceeds the limitation imposed by subsection (b)(1) for
16 such taxable year reduced by the sum of the credits allow-
17 able under this subpart (other than this section and sec-
18 tion 23), such excess shall be carried to the succeeding
19 taxable year and added to the credit allowable under sub-
20 section (a) for such taxable year.

21 “(e) REPORTING.—If the Secretary requires informa-
22 tion reporting under section 6045 by a person described
23 in subsection (e)(2) thereof to verify the eligibility of tax-
24 payers for the credit allowable by this section, the excep-
25 tion provided by section 6045(e)(5) shall not apply.

1 “(f) RECAPTURE OF CREDIT IN CASE OF CERTAIN
2 SALES.—

3 “(1) IN GENERAL.—Except as provided in para-
4 graph (5), if the taxpayer disposes of a qualified res-
5 idence with respect to the purchase of which a credit
6 was allowed under subsection (a) at any time within
7 5 years after the date the taxpayer acquired the
8 property, then the tax imposed under this chapter
9 for the taxable year in which the disposition occurs
10 is increased by the credit recapture amount.

11 “(2) CREDIT RECAPTURE AMOUNT.—For pur-
12 poses of paragraph (1), the credit recapture amount
13 is an amount equal to the sum of—

14 “(A) the applicable recapture percentage of
15 the amount of the credit allowed to the tax-
16 payer under this section, plus

17 “(B) interest at the overpayment rate es-
18 tablished under section 6621 on the amount de-
19 termined under subparagraph (A) for each
20 prior taxable year for the period beginning on
21 the due date for filing the return for the prior
22 taxable year involved.

23 No deduction shall be allowed under this chapter for
24 interest described in subparagraph (B).

25 “(3) APPLICABLE RECAPTURE PERCENTAGE.—

1 “(A) IN GENERAL.—For purposes of this
 2 subsection, the applicable recapture percentage
 3 shall be determined from the following table:

“If the sale occurs in:	The applicable recapture percentage is:
Year 1	100
Year 2	80
Year 3	60
Year 4	40
Year 5	20
Years 6 and thereafter	0.

4 “(B) YEARS.—For purposes of subpara-
 5 graph (A), year 1 shall begin on the first day
 6 of the taxable year in which the purchase of the
 7 qualified residence described in subsection (a)
 8 occurs.

9 “(4) NO CREDITS AGAINST TAX.—Any increase
 10 in tax under this subsection shall not be treated as
 11 a tax imposed by this chapter for purposes of deter-
 12 mining the amount of any credit under this chapter
 13 or for purposes of section 55.

14 “(5) DEATH OF OWNER; CASUALTY LOSS; IN-
 15 VOLUNTARY CONVERSION; ETC.—The provisions of
 16 paragraph (1) do not apply to—

17 “(A) a disposition of a qualified residence
 18 made on account of the death of any individual
 19 having a legal or equitable interest therein oc-
 20 curring during the 5-year period to which ref-
 21 erence is made under paragraph (1),

1 “(B) a disposition of the old qualified resi-
 2 dence if it is substantially or completely de-
 3 stroyed by a casualty described in section
 4 165(c)(3) or compulsorily or involuntarily con-
 5 verted (within the meaning of section 1033(a)),
 6 or

7 “(C) a disposition pursuant to a settlement
 8 in a divorce or legal separation proceeding
 9 where the qualified residence is sold or the
 10 other spouse retains such residence.

11 “(g) BASIS ADJUSTMENT.—For purposes of this sub-
 12 title, if a credit is allowed under this section with respect
 13 to the purchase of any residence, the basis of such resi-
 14 dence shall be reduced by the amount of the credit so al-
 15 lowed.”.

16 (b) CONFORMING AMENDMENTS.—

17 (1) Subsection (a) of section 1016 (relating to
 18 general rule for adjustments to basis) is amended by
 19 striking “and” at the end of paragraph (26), by
 20 striking the period at the end of paragraph (27) and
 21 inserting “, and”, and by adding at the end the fol-
 22 lowing new paragraph:

23 “(28) in the case of a residence with respect to
 24 which a credit was allowed under section 25C, to the
 25 extent provided in section 25C(g).”.

1 (2) Subsection (a) of section 1016 (relating to
2 general rule for adjustments to basis), as amended
3 by the Economic Growth and Tax Relief Reconcili-
4 ation Act of 2001, is amended by striking “and” at
5 the end of paragraph (27), by striking the period at
6 the end of paragraph (28) and inserting “, and”,
7 and by adding at the end the following:

8 “(29) in the case of a residence with respect to
9 which a credit was allowed under section 25C, to the
10 extent provided in section 25C(g).”.

11 (3) Section 24(b)(3)(B), as added and amended
12 by the Economic Growth and Tax Relief Reconcili-
13 ation Act of 2001, is amended by striking “23 and
14 25B” and inserting “23, 25B, and 25C”.

15 (4) Section 25(e)(1)(C) is amended by striking
16 “23 and 1400C” and by inserting “23, 25C, and
17 1400C”.

18 (5) Section 25(e)(1)(C), as amended by the
19 Economic Growth and Tax Relief Reconciliation Act
20 of 2001, is amended by inserting “25C,” after
21 “25B,”.

22 (6) Section 25B, as added by the Economic
23 Growth and Tax Relief Reconciliation Act of 2001,
24 is amended by striking “section 23” and inserting
25 “sections 23 and 25C”.

1 (7) Section 26(a)(1), as amended by the Eco-
 2 nomic Growth and Tax Relief Reconciliation Act of
 3 2001, is amended by striking “and 25B” and insert-
 4 ing “25B, and 25C”.

5 (8) Section 1400C(d) is amended by inserting
 6 “and section 25C” after “this section”.

7 (9) Section 1400C(d), as amended by the Eco-
 8 nomic Growth and Tax Relief Reconciliation Act of
 9 2001, is amended by striking “and 25B” and insert-
 10 ing “25B, and 25C”.

11 (10) The table of sections for subpart A of part
 12 IV of subchapter A of chapter 1 is amended by in-
 13 serting before the item relating to section 26 the fol-
 14 lowing:

 “Sec. 25C. Purchase of residences by certain rural homebuyers.”.

15 (c) EFFECTIVE DATE.—

16 (1) IN GENERAL.—The amendments made by
 17 subsections (a) and (b)(10) shall apply to purchases
 18 after the date of the enactment of this Act, in tax-
 19 able years ending after such date.

20 (2) TEMPORARY CONFORMING AMENDMENTS.—
 21 The amendments made by paragraphs (1), (4), and
 22 (8) of subsection (b) shall apply to taxable years
 23 ending before January 1, 2003.

24 (3) PERMANENT CONFORMING AMENDMENTS.—
 25 The amendments made by paragraphs (2), (3), (5),

1 (6), (7), and (9) of subsection (b) shall apply to tax-
2 able years beginning after December 31, 2002.

3 **SEC. 103. CAPITAL LOSS DEDUCTION ALLOWED WITH RE-**
4 **SPECT TO SALE OR EXCHANGE OF PRINCIPAL**
5 **RESIDENCE IN CERTAIN RURAL AREAS.**

6 (a) IN GENERAL.—Subsection (c) of section 165 (re-
7 lating to limitation on losses of individuals) is amended—

8 (1) by striking “and” at the end of paragraph
9 (2),

10 (2) by striking the period at the end of para-
11 graph (3) and inserting “; and”, and

12 (3) by adding at the end the following:

13 “(4) losses arising from the sale or exchange of
14 the principal residence (within the meaning of sec-
15 tion 121) of the taxpayer located in a qualifying
16 county (as defined in section 223(b)(2)), but only if
17 the principal residence was acquired by the taxpayer
18 after the date of enactment of this paragraph.”.

19 (b) CONFORMING AMENDMENT.—Section 67(b)(3) is
20 amended by striking “paragraph (2) or (3)” and inserting
21 “paragraph (2), (3), or (4)”.

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to sales and exchanges after the
24 date of the enactment of this Act, in taxable years ending
25 after such date.

1 **SEC. 104. INDIVIDUAL HOMESTEAD ACCOUNTS.**

2 (a) IN GENERAL.—Subchapter F of chapter 1 (relat-
3 ing to exempt organizations) is amended by adding at the
4 end the following:

5 **“PART IX—INDIVIDUAL HOMESTEAD ACCOUNTS**

“Sec. 530A. Individual homestead accounts.

6 **“SEC. 530A. INDIVIDUAL HOMESTEAD ACCOUNTS.**

7 “(a) GENERAL RULE.—An individual homestead ac-
8 count shall be exempt from taxation under this subtitle.
9 Notwithstanding the preceding sentence, any individual
10 homestead account shall be subject to the taxes imposed
11 by section 511 (relating to imposition of tax on unrelated
12 business income of charitable, etc., organizations).

13 “(b) INDIVIDUAL HOMESTEAD ACCOUNT.—For pur-
14 poses of this title, the term ‘individual homestead account’
15 means a trust created or organized in the United States
16 for the exclusive benefit of a qualified individual or his
17 beneficiaries, but only if the written governing instrument
18 creating the trust meets the following requirements:

19 “(1) Except in the case of a qualified rollover
20 (as defined in subsection (f)(7))—

21 “(A) no contribution will be accepted un-
22 less it is in cash;

23 “(B) contributions will not be accepted for
24 the taxable year in excess of \$2,500 (deter

1 mined without regard to any contribution made
2 under subsection (d)); and

3 “(C) contributions will not be accepted for
4 any taxable year following the fifth taxable year
5 in which the qualified individual has contributed
6 to any individual homestead account.

7 “(2) The requirements of paragraphs (2)
8 through (6) of section 408(a) are met.

9 “(c) QUALIFIED INDIVIDUAL; QUALIFYING COUN-
10 TY.—For purposes of this section—

11 “(1) QUALIFIED INDIVIDUAL.—The term ‘quali-
12 fied individual’ means, for any taxable year, an indi-
13 vidual who is a bona fide resident of a qualifying
14 county.

15 “(2) QUALIFYING COUNTY.—The term ‘quali-
16 fying county’ means any county which—

17 “(A) is outside a metropolitan statistical
18 area (defined as such by the Office of Manage-
19 ment and Budget), and

20 “(B) during the 20-year period ending
21 with the calendar year preceding the date of the
22 enactment of this section, has a net out-migra-
23 tion of inhabitants from the county of at least
24 10 percent of the population of the county at
25 the beginning of such period.

1 “(d) MATCHING CONTRIBUTIONS TO INDIVIDUAL
2 HOMESTEAD ACCOUNTS.—

3 “(1) IN GENERAL.—Not less than once each
4 taxable year, the Secretary shall deposit (to the ex-
5 tent provided in appropriation Acts) into an indi-
6 vidual Homestead account of each qualified indi-
7 vidual an amount equal to the applicable percentage
8 of the sum of the amounts deposited into all of the
9 individual homestead accounts of such individual
10 during such taxable year (determined without regard
11 to any amount contributed under this subsection).

12 “(2) APPLICABLE PERCENTAGE.—(A) For pur-
13 poses of this subsection, the applicable percentage
14 with respect to any qualified individual for any tax-
15 able year shall be determined in accordance with the
16 following tables:

**“If modified adjusted gross The applicable percentage is:
income is:**

\$30,000 or less	100
Over \$30,000 but not over \$60,000	50
Over \$60,000 but not over \$100,000	25
Over \$100,000	zero.

17 “(B) In the case of a head of household (as de-
18 fined in section 2(b)):

**“If modified adjusted gross The applicable percentage is:
income is:**

\$22,500 or less	100
Over \$22,500 but not over \$45,000	50
Over \$45,000 but not over \$75,000	25
Over \$75,000	zero.

19 “(C) In the case of any other individual:

“If modified adjusted gross income is: The applicable percentage is:

\$15,000 or less	100
Over \$15,000 but not over \$30,000	50
Over \$30,000 but not over \$50,000	25
Over \$50,000	zero.

1 For purposes of this paragraph, the term ‘modified
2 adjusted gross income’ has the meaning given such
3 term by section 86(b)(2).

4 “(3) EXCLUSION FROM INCOME.—Except as
5 otherwise provided in this section, gross income shall
6 not include any amount deposited into an individual
7 homestead account under paragraph (1).

8 “(4) FORFEITURE OF MATCHING CONTRIBU-
9 TIONS IN THE CASE OF CERTAIN DISTRIBUTIONS.—
10 In the event of a distribution from an individual
11 homestead account before the date described in sub-
12 section (f)(1)(A) (other than a distribution described
13 in subsection (e)(2)(A)), the account holder shall
14 forfeit the corresponding matching contributions and
15 interest earned on the matching contributions, un-
16 less such distribution is recontributed to such ac-
17 count within 6 months of such distribution.

18 “(e) TAX TREATMENT OF DISTRIBUTIONS.—

19 “(1) INCLUSION OF AMOUNTS IN GROSS IN-
20 COME.—Except as otherwise provided in this sub-
21 section, any amount paid or distributed out of an in-
22 dividual homestead account shall be includible in the

1 gross income of the payee or distributee, as the case
 2 may be, in the manner as provided in section 72.
 3 For purposes of the preceding sentence, distributions
 4 which are includable in gross income shall be treated
 5 as first attributable to amounts contributed under
 6 subsection (d) to the extent thereof.

7 “(2) EXCLUSION OF CATASTROPHIC MEDICAL
 8 EXPENSE DISTRIBUTIONS IN FIRST FIVE YEARS AND
 9 QUALIFIED INDIVIDUAL HOMESTEAD DISTRIBUTIONS
 10 THEREAFTER.—Paragraph (1) shall not apply to—

11 “(A) any distribution described in section
 12 72(t)(2)(B) before the date described in sub-
 13 section (f)(1)(A), but only to the extent such
 14 distribution does not exceed the balance in the
 15 account as of the date of such distribution, re-
 16 duced by any matching contribution under sub-
 17 section (d), and

18 “(B) any qualified individual homestead
 19 distribution.

20 “(f) QUALIFIED INDIVIDUAL HOMESTEAD DISTRIBUTION.—For purposes of this section—

22 “(1) IN GENERAL.—The term ‘qualified indi-
 23 vidual homestead distribution’ means any amount
 24 paid or distributed out of an individual homestead
 25 account which would otherwise be includible in gross

1 income, to the extent that such payment or distribu-
 2 tion—

3 “(A) is paid or distributed after the 5-tax-
 4 able year period beginning with the first taxable
 5 year in which the qualified individual made a
 6 contribution to the individual homestead ac-
 7 count (including any predecessor account), and

8 “(B) is used exclusively to pay qualified in-
 9 dividual homestead expenses for the qualified
 10 individual or the spouse or dependent (as de-
 11 fined in section 152) of such individual.

12 “(2) QUALIFIED INDIVIDUAL HOMESTEAD EX-
 13 PENSES.—The term ‘qualified individual homestead
 14 expenses’ means any of the following:

15 “(A) Qualified higher education expenses.

16 “(B) Qualified first-time homebuyer costs.

17 “(C) Qualified business capitalization
 18 costs.

19 “(D) Qualified medical expenses.

20 “(E) Qualified rollovers.

21 “(3) QUALIFIED HIGHER EDUCATION EX-
 22 PENSES.—

23 “(A) IN GENERAL.—The term ‘qualified
 24 higher education expenses’ has the meaning
 25 given such term by section 72(t)(7), determined

1 by treating postsecondary vocational edu-
2 cational schools as eligible educational institu-
3 tions.

4 “(B) POSTSECONDARY VOCATIONAL EDU-
5 CATION SCHOOL.—The term ‘postsecondary vo-
6 cational educational school’ means an area vo-
7 cational education school (as defined in sub-
8 paragraph (C) or (D) of section 521(4) of the
9 Carl D. Perkins Vocational and Applied Tech-
10 nology Education Act (20 U.S.C. 2471(4)))
11 which is in any State (as defined in section
12 521(33) of such Act), as such sections are in
13 effect on the date of the enactment of this sec-
14 tion.

15 “(C) COORDINATION WITH OTHER BENE-
16 FITS.—The amount of qualified higher edu-
17 cation expenses for any taxable year shall be re-
18 duced as provided in section 25A(g)(2).

19 “(4) QUALIFIED FIRST-TIME HOMEBUYER
20 COSTS.—The term ‘qualified first-time homebuyer
21 costs’ means qualified acquisition costs (as defined
22 in section 72(t)(8) without regard to subparagraph
23 (B) thereof) with respect to a principal residence
24 (within the meaning of section 121) located in a

1 qualifying county for a qualified first-time home-
2 buyer (as defined in section 72(t)(8)).

3 “(5) QUALIFIED BUSINESS CAPITALIZATION
4 COSTS.—

5 “(A) IN GENERAL.—The term ‘qualified
6 business capitalization costs’ means qualified
7 expenditures for the capitalization of a qualified
8 business pursuant to a qualified plan.

9 “(B) QUALIFIED EXPENDITURES.—The
10 term ‘qualified expenditures’ means expendi-
11 tures included in a qualified plan, including
12 capital, plant, equipment, working capital, and
13 inventory expenses.

14 “(C) QUALIFIED BUSINESS.—The term
15 ‘qualified business’ means any trade or business
16 located in a qualifying county other than any
17 trade or business—

18 “(i) which consists of the operation of
19 any facility described in section
20 144(c)(6)(B), or

21 “(ii) which contravenes any law.

22 Rules similar to the rules under subsection (b)
23 or (c) of section 1397C shall apply to any quali-
24 fied business under this section.

1 “(D) QUALIFIED PLAN.—The term ‘quali-
 2 fied plan’ means a business plan which meets
 3 such requirements as the Secretary may specify.

4 “(6) QUALIFIED MEDICAL EXPENSES.—The
 5 term ‘qualified medical expenses’ means any amount
 6 paid during the taxable year, not compensated for by
 7 insurance or otherwise, for medical care (as defined
 8 in section 213(d)) of the taxpayer, his spouse, or his
 9 dependent (as defined in section 152).

10 “(7) QUALIFIED ROLLOVERS.—The term ‘quali-
 11 fied rollover’ means any amount paid from an indi-
 12 vidual homestead account of a taxpayer into another
 13 such account established for the benefit of—

14 “(A) such taxpayer, or

15 “(B) any qualified individual who is—

16 “(i) the spouse of such taxpayer, or

17 “(ii) any dependent (as defined in sec-
 18 tion 152) of the taxpayer.

19 Rules similar to the rules of section 408(d)(3) shall
 20 apply for purposes of this paragraph.

21 “(g) TAX TREATMENT OF ACCOUNTS.—

22 “(1) LOSS OF EXEMPTION IN CASE OF PROHIB-
 23 ITED TRANSACTIONS.—For purposes of this section,
 24 rules similar to the rules of section 408(e) shall
 25 apply.

1 “(2) OTHER RULES TO APPLY.—Rules similar
2 to the rules of paragraphs (4), (5), and (6) of sec-
3 tion 408(d) shall apply for purposes of this section.

4 “(h) OTHER DEFINITIONS AND SPECIAL RULES.—
5 For purposes of this section—

6 “(1) ALL ACCOUNTS TREATED AS ONE AC-
7 COUNT.—All individual homestead accounts of a
8 qualified individual shall be treated as 1 account.

9 “(2) TIME WHEN CONTRIBUTIONS DEEMED
10 MADE.—A taxpayer shall be deemed to have made a
11 contribution to an individual homestead account on
12 the last day of the preceding taxable year if the con-
13 tribution is made on account of such taxable year
14 and is made not later than the time prescribed by
15 law for filing the return for such taxable year (not
16 including extensions thereof).

17 “(3) CUSTODIAL ACCOUNTS.—Rules similar to
18 the rules of section 408(h) shall apply.

19 “(4) REPORTS.—The trustee of an individual
20 homestead account shall make such reports regard-
21 ing such account to the Secretary and to the indi-
22 vidual for whom the account is maintained with re-
23 spect to contributions (and the years to which they
24 relate), distributions, and such other matters as the

1 Secretary may require under regulations. The re-
2 ports required by this paragraph—

3 “(A) shall be filed at such time and in
4 such manner as the Secretary prescribes in
5 such regulations; and

6 “(B) shall be furnished to individuals—

7 “(i) not later than January 31 of the
8 calendar year following the calendar year
9 to which such reports relate; and

10 “(ii) in such manner as the Secretary
11 prescribes in such regulations.

12 “(5) INVESTMENT IN COLLECTIBLES TREATED
13 AS DISTRIBUTIONS.—Rules similar to the rules of
14 section 408(m) shall apply.

15 “(i) DESIGNATION OF EARNED INCOME TAX CREDIT
16 PAYMENTS FOR DEPOSIT TO INDIVIDUAL HOMESTEAD
17 ACCOUNT.—

18 “(1) IN GENERAL.—With respect to the return
19 of any qualified individual for the taxable year of the
20 tax imposed by this chapter, such individual may
21 designate that a specified portion (not less than \$1)
22 of any overpayment of tax for such taxable year
23 which is attributable to the earned income tax credit
24 shall be deposited by the Secretary into an individual
25 homestead account of such individual. The Secretary

1 shall so deposit such portion designated under this
2 subsection.

3 “(2) MANNER AND TIME OF DESIGNATION.—A
4 designation under paragraph (1) may be made with
5 respect to any taxable year—

6 “(A) at the time of filing the return of the
7 tax imposed by this chapter for such taxable
8 year, or

9 “(B) at any other time (after the time of
10 filing the return of the tax imposed by this
11 chapter for such taxable year) specified in regu-
12 lations prescribed by the Secretary.

13 Such designation shall be made in such manner as
14 the Secretary prescribes by regulations.

15 “(3) PORTION ATTRIBUTABLE TO EARNED IN-
16 COME TAX CREDIT.—For purposes of this sub-
17 section, an overpayment for any taxable year shall
18 be treated as attributable to the earned income tax
19 credit to the extent that such overpayment does not
20 exceed the credit allowed to the taxpayer under sec-
21 tion 32 for such taxable year.

22 “(4) OVERPAYMENTS TREATED AS RE-
23 FUNDED.—For purposes of this title, any portion of
24 an overpayment of tax designated under paragraph
25 (1) shall be treated as being refunded to the tax-

1 payer as of the last date prescribed for filing the re-
 2 turn of tax imposed by this chapter (determined
 3 without regard to extensions) or, if later, the date
 4 the return is filed.

5 “(j) PENALTY FOR DISTRIBUTIONS NOT USED FOR
 6 QUALIFIED INDIVIDUAL HOMESTEAD EXPENSES.—

7 “(1) IN GENERAL.—If any amount is distrib-
 8 uted from an individual homestead account and is
 9 not used exclusively to pay qualified individual
 10 homestead expenses for the holder of the account or
 11 the spouse or dependent (as defined in section 152)
 12 of such holder, the tax imposed by this chapter for
 13 the taxable year of such distribution shall be in-
 14 creased by 10 percent of such amount which is in-
 15 cludible in gross income. For purposes of the pre-
 16 ceding sentence, distributions which are includable
 17 in gross income shall be treated as first attributable
 18 to amounts contributed under subsection (d) to the
 19 extent thereof.

20 “(2) EXCEPTION FOR CERTAIN DISTRIBUTI-
 21 TIONS.—Paragraph (1) shall not apply to distribu-
 22 tions which are—

23 “(A) made on or after the date on which
 24 the account holder attains age 59½,

1 “(B) made to a beneficiary (or the estate
 2 of the account holder) on or after the death of
 3 the account holder,

4 “(C) attributable to the account holder’s
 5 being disabled within the meaning of section
 6 72(m)(7), or

7 “(D) described in subsection (e)(2)(A).

8 “(k) APPLICATION OF SECTION.—This section shall
 9 apply to amounts paid to an individual homestead account
 10 for any taxable year beginning after December 31, 2002.”.

11 (b) TAX ON EXCESS CONTRIBUTIONS.—

12 (1) TAX IMPOSED.—Subsection (a) of section
 13 4973 is amended by striking “or” at the end of
 14 paragraph (3), adding “or” at the end of paragraph
 15 (4), and inserting after paragraph (4) the following:

16 “(5) an individual homestead account (within
 17 the meaning of section 530A(b)),”.

18 (2) EXCESS CONTRIBUTIONS.—Section 4973 is
 19 amended by adding at the end the following:

20 “(g) INDIVIDUAL HOMESTEAD ACCOUNTS.—For pur-
 21 poses of this section, in the case of individual homestead
 22 accounts, the term ‘excess contributions’ means the sum
 23 of—

24 “(1) the excess (if any) of—

1 “(A) the amount contributed for the tax-
2 able year to the accounts (other than a quali-
3 fied rollover, as defined in section 530A(f)(7),
4 or a contribution under section 530A(d)), over

5 “(B) the amount allowable under section
6 530A for such contributions; and

7 “(2) the amount determined under this sub-
8 section for the preceding taxable year reduced by the
9 sum of—

10 “(A) the distributions out of the accounts
11 for the taxable year which were included in the
12 gross income of the payee under section
13 530A(e)(1);

14 “(B) the distributions out of the accounts
15 for the taxable year to which rules similar to
16 the rules of section 408(d)(5) apply by reason
17 of section 530A(g)(2); and

18 “(C) the excess (if any) of the maximum
19 amount allowable as a contribution under sec-
20 tion 530A for the taxable year over the amount
21 contributed to the account for the taxable year
22 (other than a contribution under section
23 530A(d)).

24 For purposes of this subsection, any contribution which
25 is distributed from the individual homestead account in

1 a distribution to which rules similar to the rules of section
 2 408(d)(4) apply by reason of section 530A(g)(2) shall be
 3 treated as an amount not contributed.”.

4 (c) TAX ON PROHIBITED TRANSACTIONS.—Section
 5 4975 is amended—

6 (1) by adding at the end of subsection (c) the
 7 following:

8 “(6) SPECIAL RULE FOR INDIVIDUAL HOME-
 9 STEAD ACCOUNTS.—An individual for whose benefit
 10 an individual homestead account is established and
 11 any contributor to such account shall be exempt
 12 from the tax imposed by this section with respect to
 13 any transaction concerning such account (which
 14 would otherwise be taxable under this section) if,
 15 with respect to such transaction, the account ceases
 16 to be an individual homestead account by reason of
 17 the application of section 530A(g)(1) to such ac-
 18 count.”; and

19 (2) in subsection (e)(1), by striking “or” at the
 20 end of subparagraph (E), by redesignating subpara-
 21 graph (F) as subparagraph (G), and by inserting
 22 after subparagraph (E) the following:

23 “(F) an individual homestead account de-
 24 scribed in section 530A(b), or”.

1 (d) INFORMATION RELATING TO CERTAIN TRUSTS
 2 AND ANNUITY PLANS.—Subsection (c) of section 6047 is
 3 amended—

4 (1) by inserting “or section 530A” after “sec-
 5 tion 219”; and

6 (2) by inserting “, of any individual homestead
 7 account described in section 530A(b),” after “sec-
 8 tion 408(a)”.

9 (e) INSPECTION OF APPLICATIONS FOR TAX EXEMP-
 10 TION.—Clause (i) of section 6104(a)(1)(B) is amended by
 11 inserting “an individual homestead account described in
 12 section 530A(b),” after “section 408(a),”.

13 (f) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL
 14 HOMESTEAD ACCOUNTS.—Paragraph (2) of section
 15 6693(a) is amended by striking “and” at the end of sub-
 16 paragraph (C), by striking the period and inserting “,
 17 and” at the end of subparagraph (D), and by adding at
 18 the end the following:

19 “(E) section 530A(h)(4) (relating to indi-
 20 vidual homestead accounts).”.

21 (g) CLERICAL AMENDMENT.—The table of parts for
 22 subchapter F of chapter 1 is amended by adding at the
 23 end the following:

“Part IX. Individual homestead accounts.”.

1 **TITLE II—INCENTIVES FOR MAIN** 2 **STREET BUSINESSES**

3 **SEC. 201. RURAL INVESTMENT TAX CREDIT.**

4 (a) IN GENERAL.—Subpart D of part IV of sub-
5 chapter A of chapter 1 (relating to business related cred-
6 its) is amended by adding at the end the following:

7 **“SEC. 42A. RURAL INVESTMENT CREDIT.**

8 “(a) IN GENERAL.—For purposes of section 38, the
9 amount of the rural investment credit determined under
10 this section for any taxable year in the credit period shall
11 be an amount equal to the applicable percentage of the
12 eligible basis of each qualified rural investment building.

13 “(b) APPLICABLE PERCENTAGE: 70 PERCENT
14 PRESENT VALUE CREDIT FOR NEW BUILDINGS; 30 PER-
15 CENT PRESENT VALUE CREDIT FOR EXISTING BUILD-
16 INGS.—For purposes of this section—

17 “(1) IN GENERAL.—The term ‘applicable per-
18 centage’ means the appropriate percentage pre-
19 scribed by the Secretary for the earlier of—

20 “(A) the first month of the credit period
21 with respect to a rural investment building, or

22 “(B) at the election of the taxpayer, the
23 month in which the taxpayer and the rural in-
24 vestment credit agency enter into an agreement
25 with respect to such building (which is binding

1 on such agency, the taxpayer, and all successors
 2 in interest) as to the rural investment credit
 3 dollar amount to be allocated to such building.

4 A month may be elected under subparagraph (B)
 5 only if the election is made not later than the 5th
 6 day after the close of such month. Such an election,
 7 once made, shall be irrevocable.

8 “(2) METHOD OF PRESCRIBING PERCENT-
 9 AGES.—The percentages prescribed by the Secretary
 10 for any month shall be percentages which will yield
 11 over a 10-year period amounts of credit under sub-
 12 section (a) which have a present value equal to—

13 “(A) 70 percent of the eligible basis of a
 14 new building, and

15 “(B) 30 percent of the eligible basis of an
 16 existing building.

17 “(3) METHOD OF DISCOUNTING.—The present
 18 value under paragraph (2) shall be determined—

19 “(A) as of the last day of the 1st year of
 20 the 10-year period referred to in paragraph (2),

21 “(B) by using a discount rate equal to 72
 22 percent of the average of the annual Federal
 23 mid-term rate and the annual Federal long-
 24 term rate applicable under section 1274(d)(1)
 25 to the month applicable under subparagraph

1 (A) or (B) of paragraph (1) and compounded
 2 annually, and

3 “(C) by assuming that the credit allowable
 4 under this section for any year is received on
 5 the last day of such year.

6 “(c) ELIGIBLE BASIS; QUALIFIED RURAL INVEST-
 7 MENT BUILDING.—For purposes of this section—

8 “(1) ELIGIBLE BASIS.—

9 “(A) IN GENERAL.—The eligible basis of
 10 any qualified rural investment building for any
 11 taxable year shall be determined under rules
 12 similar to the rules under section 42(d), except
 13 that—

14 “(i) the determination of the adjusted
 15 basis of any building shall be made as of
 16 the beginning of the credit period, and

17 “(ii) such basis shall include develop-
 18 ment costs properly attributable to such
 19 building.

20 “(B) DEVELOPMENT COSTS.—For pur-
 21 poses of subparagraph (A)(ii), the term ‘devel-
 22 opment costs’ includes—

23 “(i) site preparation costs,

24 “(ii) State and local impact fees,

25 “(iii) reasonable development costs,

1 “(iv) professional fees related to basis
2 items,

3 “(v) construction financing costs re-
4 lated to basis items other than land, and

5 “(vi) on-site and adjacent improve-
6 ments required by State and local govern-
7 ments.

8 “(2) QUALIFIED RURAL INVESTMENT BUILD-
9 ING.—The term ‘qualified rural investment building’
10 means any building which is part of a qualified rural
11 investment project at all times during the period—

12 “(A) beginning on the 1st day in the com-
13 pliance period on which such building is part of
14 such an investment project, and

15 “(B) ending on the last day of the compli-
16 ance period with respect to such building.

17 “(d) REHABILITATION EXPENDITURES TREATED AS
18 SEPARATE NEW BUILDING.—Rehabilitation expenditures
19 paid or incurred by the taxpayer with respect to any build-
20 ing shall be treated for purposes of this section as a sepa-
21 rate new building under the rules of section 42(e).

22 “(e) DEFINITION AND SPECIAL RULES RELATING TO
23 CREDIT PERIOD.—

24 “(1) CREDIT PERIOD DEFINED.—For purposes
25 of this section, the term ‘credit period’ means, with

1 respect to any building, the period of 10 taxable
2 years beginning with the taxable year in which the
3 building is first placed in service.

4 “(2) SPECIAL RULE FOR 1ST YEAR OF CREDIT
5 PERIOD.—

6 “(A) IN GENERAL.—The credit allowable
7 under subsection (a) with respect to any build-
8 ing for the 1st taxable year of the credit period
9 shall be determined by multiplying such credit
10 by the fraction—

11 “(i) the numerator of which is the
12 number of full months of such year during
13 which such building was in service, and

14 “(ii) the denominator of which is 12.

15 “(B) DISALLOWED 1ST YEAR CREDIT AL-
16 LOWED IN 11TH YEAR.—Any reduction by rea-
17 son of subparagraph (A) in the credit allowable
18 (without regard to subparagraph (A)) for the
19 1st taxable year of the credit period shall be al-
20 lowable under subsection (a) for the 1st taxable
21 year following the credit period.

22 “(3) CREDIT PERIOD FOR EXISTING BUILDINGS
23 NOT TO BEGIN BEFORE REHABILITATION CREDIT
24 ALLOWED.—The credit period for an existing build-
25 ing shall not begin before the 1st taxable year of the

1 credit period for rehabilitation expenditures with re-
 2 spect to the building.

3 “(f) QUALIFIED RURAL INVESTMENT PROJECT;
 4 QUALIFYING COUNTY.—For purposes of this section—

5 “(1) QUALIFIED RURAL INVESTMENT
 6 PROJECT.—The term ‘qualified rural investment
 7 project’ means any investment project of 1 or more
 8 qualified rural investment buildings located in a
 9 qualifying county (and, if necessary to the project,
 10 any contiguous county) and selected by the State ac-
 11 cording to its qualified rural investment plan.

12 “(2) QUALIFYING COUNTY.—The term ‘quali-
 13 fying county’ means any county which—

14 “(A) is outside a metropolitan statistical
 15 area (defined as such by the Office of Manage-
 16 ment and Budget), and

17 “(B) during the 20-year period ending
 18 with the calendar year preceding the date of the
 19 enactment of this section, has a net out-migra-
 20 tion of inhabitants from the county of at least
 21 10 percent of the population of the county at
 22 the beginning of such period.

23 “(g) LIMITATION ON AGGREGATE CREDIT ALLOW-
 24 ABLE WITH RESPECT TO INVESTMENT PROJECTS LO-
 25 CATED IN A STATE.—

1 “(1) CREDIT MAY NOT EXCEED CREDIT
2 AMOUNT ALLOCATED TO BUILDING.—The amount of
3 the credit determined under this section for any tax-
4 able year with respect to any building shall not ex-
5 ceed the rural investment credit dollar amount allo-
6 cated to such building under rules similar to the
7 rules of section 42(h)(1).

8 “(2) ALLOCATED CREDIT AMOUNT TO APPLY
9 TO ALL TAXABLE YEARS ENDING DURING OR AFTER
10 CREDIT ALLOCATION YEAR.—Any rural investment
11 credit dollar amount allocated to any building for
12 any calendar year—

13 “(A) shall apply to such building for all
14 taxable years in the credit period ending during
15 or after such calendar year, and

16 “(B) shall reduce the aggregate rural in-
17 vestment credit dollar amount of the allocating
18 agency only for such calendar year.

19 “(3) RURAL INVESTMENT CREDIT DOLLAR
20 AMOUNT FOR AGENCIES.—

21 “(A) IN GENERAL.—The aggregate rural
22 investment credit dollar amount which a rural
23 investment credit agency may allocate for any
24 calendar year is the portion of the State rural
25 investment credit ceiling allocated under this

1 paragraph for such calendar year to such agen-
2 cy.

3 “(B) STATE CEILING INITIALLY ALLO-
4 CATED TO STATE RURAL INVESTMENT CREDIT
5 AGENCIES.—Except as provided in subpara-
6 graphs (D) and (E), the State rural investment
7 credit ceiling for each calendar year shall be al-
8 located to the rural investment credit agency of
9 such State. If there is more than 1 rural invest-
10 ment credit agency of a State, all such agencies
11 shall be treated as a single agency.

12 “(C) STATE RURAL INVESTMENT CREDIT
13 CEILING.—The State rural investment credit
14 ceiling applicable to any State and any calendar
15 year shall be an amount equal to the sum of—

16 “(i) the unused State rural investment
17 credit ceiling (if any) of such State for the
18 preceding calendar year,

19 “(ii) \$1,000,000 for each qualifying
20 county in the State,

21 “(iii) the amount of State rural in-
22 vestment credit ceiling returned in the cal-
23 endar year, plus

1 “(iv) the amount (if any) allocated
2 under subparagraph (D) to such State by
3 the Secretary.

4 For purposes of clause (i), the unused State
5 rural investment credit ceiling for any calendar
6 year is the excess (if any) of the sum of the
7 amounts described in clauses (ii) through (iv)
8 over the aggregate rural investment credit dol-
9 lar amount allocated for such year. For pur-
10 poses of clause (iii), the amount of State rural
11 investment credit ceiling returned in the cal-
12 endar year equals the rural investment credit
13 dollar amount previously allocated within the
14 State to any investment project which fails to
15 meet the 10 percent test under section
16 42(h)(1)(E)(ii) on a date after the close of the
17 calendar year in which the allocation was made
18 or which does not become a qualified rural in-
19 vestment project within the period required by
20 this section or the terms of the allocation or to
21 any investment project with respect to which an
22 allocation is canceled by mutual consent of the
23 rural investment credit agency and the alloca-
24 tion recipient.

1 “(D) UNUSED RURAL INVESTMENT CREDIT
2 CARRYOVERS ALLOCATED AMONG CERTAIN
3 STATES.—

4 “(i) IN GENERAL.—The unused rural
5 investment credit carryover of a State for
6 any calendar year shall be assigned to the
7 Secretary for allocation among qualified
8 States for the succeeding calendar year.

9 “(ii) UNUSED RURAL INVESTMENT
10 CREDIT CARRYOVER.—For purposes of this
11 subparagraph, the unused rural investment
12 credit carryover of a State for any calendar
13 year is the excess (if any) of the unused
14 State rural investment credit ceiling for
15 such year (as defined in subparagraph
16 (C)(i)) over the excess (if any) of—

17 “(I) the unused State rural in-
18 vestment credit ceiling for the year
19 preceding such year, over

20 “(II) the aggregate rural invest-
21 ment credit dollar amount allocated
22 for such year.

23 “(iii) FORMULA FOR ALLOCATION OF
24 UNUSED RURAL INVESTMENT CREDIT
25 CARRYOVERS AMONG QUALIFIED

1 STATES.—The amount allocated under this
2 subparagraph to a qualified State for any
3 calendar year shall be the amount deter-
4 mined by the Secretary to bear the same
5 ratio to the aggregate unused rural invest-
6 ment credit carryovers of all States for the
7 preceding calendar year as such State’s
8 population for the calendar year bears to
9 the population of all qualified States for
10 the calendar year. For purposes of the pre-
11 ceding sentence, population shall be deter-
12 mined in accordance with section 146(j).

13 “(iv) QUALIFIED STATE.—For pur-
14 poses of this subparagraph, the term
15 ‘qualified State’ means, with respect to a
16 calendar year, any State—

17 “(I) which allocated its entire
18 State rural investment credit ceiling
19 for the preceding calendar year, and

20 “(II) for which a request is made
21 (not later than May 1 of the calendar
22 year) to receive an allocation under
23 clause (iii).

24 “(E) STATE MAY PROVIDE FOR DIF-
25 FERENT ALLOCATION.—Rules similar to the

1 rules of section 146(e) (other than paragraph
2 (2)(B) thereof) shall apply for purposes of this
3 paragraph.

4 “(F) POPULATION.—For purposes of this
5 paragraph, population shall be determined in
6 accordance with section 146(j).

7 “(G) COST-OF-LIVING ADJUSTMENT.—

8 “(i) IN GENERAL.—In the case of a
9 calendar year after 2003, the \$1,000,000
10 amount in subparagraph (C) shall be in-
11 creased by an amount equal to—

12 “(I) such dollar amount, multi-
13 plied by

14 “(II) the cost-of-living adjust-
15 ment determined under section
16 1(f)(3) for such calendar year by sub-
17 stituting ‘calendar year 2002’ for ‘cal-
18 endar year 1992’ in subparagraph (B)
19 thereof.

20 “(ii) ROUNDING.—Any increase under
21 clause (i) which is not a multiple of \$5,000
22 shall be rounded to the next lowest mul-
23 tiple of \$5,000.

1 “(4) PORTION OF STATE CEILING SET-ASIDE
2 FOR CERTAIN INVESTMENT PROJECTS INVOLVING
3 QUALIFIED NONPROFIT ORGANIZATIONS.—

4 “(A) IN GENERAL.—At least 10 percent of
5 the State rural investment credit ceiling for any
6 State for any calendar year shall be allocated to
7 qualified rural investment projects described in
8 subparagraph (B).

9 “(B) INVESTMENT PROJECTS INVOLVING
10 QUALIFIED NONPROFIT ORGANIZATIONS.—For
11 purposes of subparagraph (A), a qualified rural
12 investment project is described in this subpara-
13 graph if a qualified nonprofit organization is to
14 materially participate (within the meaning of
15 section 469(h)) in the development and oper-
16 ation of the investment project throughout the
17 compliance period.

18 “(C) QUALIFIED NONPROFIT ORGANIZA-
19 TION.—For purposes of this paragraph, the
20 term ‘qualified nonprofit organization’ means
21 any organization if—

22 “(i) such organization is described in
23 any paragraph of section 501(c) and is ex-
24 empt from tax under section 501(a),

1 “(ii) such organization is determined
 2 by the State rural investment credit agency
 3 not to be affiliated with or controlled by a
 4 for-profit organization; and

5 “(iii) 1 of the exempt purposes of
 6 such organization includes the fostering of
 7 rural investment.

8 “(D) TREATMENT OF CERTAIN SUBSIDI-
 9 ARIES.—

10 “(i) IN GENERAL.—For purposes of
 11 this paragraph, a qualified nonprofit orga-
 12 nization shall be treated as satisfying the
 13 ownership and material participation test
 14 of subparagraph (B) if any qualified cor-
 15 poration in which such organization holds
 16 stock satisfies such test.

17 “(ii) QUALIFIED CORPORATION.—For
 18 purposes of clause (i), the term ‘qualified
 19 corporation’ means any corporation if 100
 20 percent of the stock of such corporation is
 21 held by 1 or more qualified nonprofit orga-
 22 nizations at all times during the period
 23 such corporation is in existence.

24 “(E) STATE MAY NOT OVERRIDE SET-
 25 ASIDE.—Nothing in subparagraph (F) of para-

graph (3) shall be construed to permit a State not to comply with subparagraph (A) of this paragraph.

“(F) CREDITS FOR QUALIFIED NONPROFIT ORGANIZATIONS.—

“(i) ALLOWANCE OF CREDIT.—Any credit which would be allowable under subsection (a) with respect to a qualified rural investment building of a qualified nonprofit organization if such organization were not exempt from tax under this chapter shall be treated as a credit allowable under subpart C to such organization.

“(ii) USE OF CREDIT.—A qualified nonprofit organization may assign, trade, sell, or otherwise transfer any credit allowable to such organization under subparagraph (A) to any taxpayer.

“(iii) CREDIT NOT INCOME.—A transfer under subparagraph (B) of any credit allowable under subparagraph (A) shall not result in income for purposes of section 511.

“(5) SPECIAL RULES.—

1 “(A) BUILDING MUST BE LOCATED WITH-
2 IN JURISDICTION OF CREDIT AGENCY.—A rural
3 investment credit agency may allocate its aggre-
4 gate rural investment credit dollar amount only
5 to buildings located in the jurisdiction of the
6 governmental unit of which such agency is a
7 part.

8 “(B) AGENCY ALLOCATIONS IN EXCESS OF
9 LIMIT.—If the aggregate rural investment cred-
10 it dollar amounts allocated by a rural invest-
11 ment credit agency for any calendar year exceed
12 the portion of the State rural investment credit
13 ceiling allocated to such agency for such cal-
14 endar year, the rural investment credit dollar
15 amounts so allocated shall be reduced (to the
16 extent of such excess) for buildings in the re-
17 verse of the order in which the allocations of
18 such amounts were made.

19 “(C) CREDIT REDUCED IF ALLOCATED
20 CREDIT DOLLAR AMOUNT IS LESS THAN CREDIT
21 WHICH WOULD BE ALLOWABLE WITHOUT RE-
22 GARD TO SALES CONVENTION, ETC.—

23 “(i) IN GENERAL.—The amount of
24 the credit determined under this section
25 with respect to any building shall not ex-

ceed the clause (ii) percentage of the amount of the credit which would (but for this subparagraph) be determined under this section with respect to such building.

“(ii) DETERMINATION OF PERCENTAGE.—For purposes of clause (i), the clause (ii) percentage with respect to any building is the percentage which—

“(I) the rural investment credit dollar amount allocated to such building bears to

“(II) the credit amount determined in accordance with clause (iii).

“(iii) DETERMINATION OF CREDIT AMOUNT.—The credit amount determined in accordance with this clause is the amount of the credit which would (but for this subparagraph) be determined under this section with respect to the building if this section were applied without regard to paragraph (2)(A) of subsection (e).

“(D) RURAL INVESTMENT CREDIT AGENCY TO SPECIFY APPLICABLE PERCENTAGE AND MAXIMUM ELIGIBLE BASIS.—In allocating a rural investment credit dollar amount to any

1 building, the rural investment credit agency
 2 shall specify the applicable percentage and the
 3 maximum eligible basis which may be taken
 4 into account under this section with respect to
 5 such building. The applicable percentage and
 6 maximum eligible basis so specified shall not ex-
 7 ceed the applicable percentage and eligible basis
 8 determined under this section without regard to
 9 this subsection.

10 “(6) OTHER DEFINITIONS.—For purposes of
 11 this subsection—

12 “(A) RURAL INVESTMENT CREDIT AGEN-
 13 CY.—The term ‘rural investment credit agency’
 14 means any agency authorized to carry out this
 15 subsection.

16 “(B) POSSESSIONS TREATED AS
 17 STATES.—The term ‘State’ includes a posses-
 18 sion of the United States.

19 “(h) DEFINITIONS AND SPECIAL RULES.—For pur-
 20 poses of this section—

21 “(1) COMPLIANCE PERIOD.—The term ‘compli-
 22 ance period’ means, with respect to any building, the
 23 period of 10 taxable years beginning with the 1st
 24 taxable year of the credit period with respect there-
 25 to.

1 “(2) NEW BUILDING.—The term ‘new building’
2 means a building the original use of which begins
3 with the taxpayer.

4 “(3) EXISTING BUILDING.—The term ‘existing
5 building’ means any building which is not a new
6 building.

7 “(4) APPLICATION TO ESTATES AND TRUSTS.—
8 In the case of an estate or trust, the amount of the
9 credit determined under subsection (a) and any in-
10 crease in tax under subsection (i) shall be appor-
11 tioned between the estate or trust and the bene-
12 ficiaries on the basis of the income of the estate or
13 trust allocable to each.

14 “(i) RECAPTURE OF CREDIT.—If—

15 “(1) as of the close of any taxable year in the
16 compliance period, the amount of the eligible basis
17 of any building with respect to the taxpayer is less
18 than

19 “(2) the amount of such basis as of the close
20 of the preceding taxable year,

21 then the taxpayer’s tax under this chapter for the taxable
22 year shall be increased by the credit recapture amount de-
23 termined under rules similar to the rules of section 42(j).

24 “(j) CERTIFICATIONS AND OTHER REPORTS TO SEC-
25 RETARY.—

1 “(1) CERTIFICATION WITH RESPECT TO 1ST
2 YEAR OF CREDIT PERIOD.—Following the close of
3 the 1st taxable year in the credit period with respect
4 to any qualified rural investment building, the tax-
5 payer shall certify to the Secretary (at such time
6 and in such form and in such manner as the Sec-
7 retary prescribes)—

8 “(A) the taxable year, and calendar year,
9 in which such building was first placed in serv-
10 ice,

11 “(B) the eligible basis of such building as
12 of the beginning of the credit period,

13 “(C) the maximum applicable percentage
14 and eligible basis permitted to be taken into ac-
15 count by the appropriate rural investment cred-
16 it agency under subsection (g),

17 “(D) the election made under subsection
18 (f) with respect to the qualified rural invest-
19 ment project of which such building is a part,
20 and

21 “(E) such other information as the Sec-
22 retary may require.

23 In the case of a failure to make the certification re-
24 quired by the preceding sentence on the date pre-
25 scribed therefor, unless it is shown that such failure

1 is due to reasonable cause and not to willful neglect,
2 no credit shall be allowable by reason of subsection
3 (a) with respect to such building for any taxable
4 year ending before such certification is made.

5 “(2) ANNUAL REPORTS TO THE SECRETARY.—

6 The Secretary may require taxpayers to submit an
7 information return (at such time and in such form
8 and manner as the Secretary prescribes) for each
9 taxable year setting forth—

10 “(A) the eligible basis for the taxable year
11 of each qualified rural investment building of
12 the taxpayer,

13 “(B) the information described in para-
14 graph (1)(C) for the taxable year, and

15 “(C) such other information as the Sec-
16 retary may require.

17 The penalty under section 6652(j) shall apply to any
18 failure to submit the return required by the Sec-
19 retary under the preceding sentence on the date pre-
20 scribed therefor.

21 “(3) ANNUAL REPORTS FROM RURAL INVEST-
22 MENT CREDIT AGENCIES.—Each agency which allo-
23 cates any rural investment credit amount to any
24 building for any calendar year shall submit to the
25 Secretary (at such time and in such manner as the

1 Secretary shall prescribe) an annual report speci-
 2 fying—

3 “(A) the amount of rural investment credit
 4 amount allocated to each building for such year,

5 “(B) sufficient information to identify each
 6 such building and the taxpayer with respect
 7 thereto, and

8 “(C) such other information as the Sec-
 9 retary may require.

10 The penalty under section 6652(j) shall apply to any
 11 failure to submit the report required by the pre-
 12 ceding sentence on the date prescribed therefor.

13 “(k) RESPONSIBILITIES OF RURAL INVESTMENT
 14 CREDIT AGENCIES.—

15 “(1) PLANS FOR ALLOCATION OF CREDIT
 16 AMONG INVESTMENT PROJECTS.—

17 “(A) IN GENERAL.—Notwithstanding any
 18 other provision of this section, the rural invest-
 19 ment credit dollar amount with respect to any
 20 building shall be zero unless—

21 “(i) such amount was allocated pursu-
 22 ant to a qualified rural investment plan of
 23 the agency which is approved by the gov-
 24 ernmental unit (in accordance with rules
 25 similar to the rules of section 147(f)(2)

1 (other than subparagraph (B)(ii) thereof)
2 of which such agency is a part,

3 “(ii) such agency notifies the chief ex-
4 ecutive officer (or the equivalent) of the
5 local jurisdiction within which the building
6 is located of such investment project and
7 provides such individual a reasonable op-
8 portunity to comment on the investment
9 project,

10 “(iii) a comprehensive market study
11 of the development needs of individuals in
12 the qualifying county to be served by the
13 investment project is conducted before the
14 credit allocation is made and at the devel-
15 oper’s expense by a disinterested party who
16 is approved by such agency, and

17 “(iv) a written explanation is available
18 to the general public for any allocation of
19 a rural investment credit dollar amount
20 which is not made in accordance with es-
21 tablished priorities and selection criteria of
22 the rural investment credit agency.

23 “(B) QUALIFIED RURAL INVESTMENT
24 PLAN.—For purposes of this section, the term

1 ‘qualified rural investment plan’ means any
2 plan—

3 “(i) which sets forth selection criteria
4 to be used to determine priorities of the
5 rural investment credit agency which are
6 appropriate to qualifying counties,

7 “(ii) which also gives preference in al-
8 locating rural investment credit dollar
9 amounts among selected investment
10 projects to—

11 “(I) investment projects that tar-
12 get those small rural counties with
13 consistently high rates of net out-mi-
14 gration,

15 “(II) investment projects that
16 link the economic development and job
17 creation efforts of 2 or more small
18 rural counties with high rates of net
19 out-migration, and

20 “(III) investment projects that
21 link the economic development and job
22 creation efforts of 1 or more small
23 rural counties in the State with high
24 rates of net out-migration to related

1 efforts in regions of such State experi-
 2 encing economic growth, and

3 “(iii) which provides a procedure that
 4 the agency (or an agent or other private
 5 contractor of such agency) will follow in
 6 monitoring for noncompliance with the
 7 provisions of this section and in notifying
 8 the Internal Revenue Service of such non-
 9 compliance which such agency becomes
 10 aware of and in monitoring for noncompli-
 11 ance through regular site visits.

12 “(C) CERTAIN SELECTION CRITERIA MUST
 13 BE USED.—The selection criteria set forth in a
 14 qualified rural investment plan must include—

15 “(i) investment project location,

16 “(ii) technology and transportation in-
 17 frastructure needs, and

18 “(iii) private development trends.

19 “(2) CREDIT ALLOCATED TO BUILDING NOT TO
 20 EXCEED AMOUNT NECESSARY TO ASSURE INVEST-
 21 MENT PROJECT FEASIBILITY.—

22 “(A) IN GENERAL.—The rural investment
 23 credit dollar amount allocated to an investment
 24 project shall not exceed the amount the rural
 25 investment credit agency determines is nec-

1 essary for the financial feasibility of the invest-
2 ment project and its viability as a qualified
3 rural investment project throughout the compli-
4 ance period.

5 “(B) AGENCY EVALUATION.—In making
6 the determination under subparagraph (A), the
7 rural investment credit agency shall consider—

8 “(i) the sources and uses of funds and
9 the total financing planned for the invest-
10 ment project,

11 “(ii) any proceeds or receipts expected
12 to be generated by reason of tax benefits,

13 “(iii) the percentage of the rural in-
14 vestment credit dollar amount used for in-
15 vestment project costs other than the cost
16 of intermediaries, and

17 “(iv) the reasonableness of the devel-
18 opmental and operational costs of the in-
19 vestment project.

20 Clause (iii) shall not be applied so as to impede
21 the development of investment projects in hard-
22 to-develop areas.

23 “(C) DETERMINATION MADE WHEN CRED-
24 IT AMOUNT APPLIED FOR AND WHEN BUILDING
25 PLACED IN SERVICE.—

1 “(i) IN GENERAL.—A determination
2 under subparagraph (A) shall be made as
3 of each of the following times:

4 “(I) The application for the rural
5 investment credit dollar amount.

6 “(II) The allocation of the rural
7 investment credit dollar amount.

8 “(III) The date the building is
9 first placed in service.

10 “(ii) CERTIFICATION AS TO AMOUNT
11 OF OTHER SUBSIDIES.—Prior to each de-
12 termination under clause (i), the taxpayer
13 shall certify to the rural investment credit
14 agency the full extent of all Federal, State,
15 and local subsidies which apply (or which
16 the taxpayer expects to apply) with respect
17 to the building.

18 “(l) REGULATIONS.—The Secretary shall prescribe
19 such regulations as may be necessary or appropriate to
20 carry out the purposes of this section, including regula-
21 tions—

22 “(1) dealing with—

23 “(A) investment projects which include
24 more than 1 building or only a portion of a
25 building, and

1 “(B) buildings which are sold in portions,

2 “(2) providing for the application of this section

3 to short taxable years,

4 “(3) preventing the avoidance of the rules of

5 this section, and

6 “(4) providing the opportunity for rural invest-

7 ment credit agencies to correct administrative errors

8 and omissions with respect to allocations and record

9 keeping within a reasonable period after their dis-

10 covery, taking into account the availability of regula-

11 tions and other administrative guidance from the

12 Secretary.”.

13 (b) CURRENT YEAR BUSINESS CREDIT CALCULA-

14 TION.—Section 38(b) (relating to current year business

15 credit) is amended by striking “plus” at the end of para-

16 graph (14), by striking the period at the end of paragraph

17 (15) and inserting “, plus”, and by adding at the end the

18 following:

19 “(16) the rural investment credit determined

20 under section 42A(a).”.

21 (c) LIMITATION ON CARRYBACK.—Subsection (d) of

22 section 39 (relating to carryback and carryforward of un-

23 used credits) is amended by adding at the end the fol-

24 lowing:

1 “(11) NO CARRYBACK OF RURAL INVESTMENT
 2 CREDIT BEFORE EFFECTIVE DATE.—No amount of
 3 unused business credit available under section 42A
 4 may be carried back to a taxable year ending the
 5 date of the enactment of this paragraph.”.

6 (d) CONFORMING AMENDMENTS.—

7 (1) Section 55(c)(1) is amended by inserting
 8 “or subsection (i) or (j) of section 42A” after “sec-
 9 tion 42”.

10 (2) Subsections (i)(c)(3), (i)(c)(6)(B)(i), and
 11 (k)(1) of section 469 are each amended by inserting
 12 “or 42A” after “section 42”.

13 (3) Section 772(a) is amended by striking
 14 “and” at the end of paragraph (10), by redesignig-
 15 nating paragraph (11) as paragraph (12), and by in-
 16 serting after paragraph (10) the following:

17 “(11) the rural investment credit determined
 18 under section 42A, and”.

19 (4) Section 774(b)(4) is amended by inserting
 20 “, 42A(i),” after “section 42(j)”.

21 (e) CLERICAL AMENDMENT.—The table of sections
 22 for subpart D of part IV of subchapter A of chapter 1
 23 is amended by inserting after the item relating to section
 24 42 the following:

 “Sec. 42A. Rural investment credit.”.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to expenditures made in taxable years beginning after December 31, 2002.

SEC. 202. ACCELERATED DEPRECIATION FOR RURAL INVESTMENT PROPERTY.

(a) IN GENERAL.—Section 168 is amended by adding at the end the following:

“(k) PROPERTY IN RURAL INVESTMENT PROJECTS.—

“(1) IN GENERAL.—For purposes of subsection (a), the applicable recovery period for qualified rural investment property shall be determined in accordance with the table contained in paragraph (2) in lieu of the table contained in subsection (c).

“(2) APPLICABLE RECOVERY PERIOD FOR RURAL INVESTMENT PROPERTY.—For purposes of paragraph (1)—

“In the case of:	The applicable recovery period is:
3-year property	2 years
5-year property	3 years
7-year property	4 years
10-year property	6 years
15-year property	9 years
20-year property	12 years
Nonresidential real property	22 years.

“(3) DEDUCTION ALLOWED IN COMPUTING MINIMUM TAX.—For purposes of determining alternative minimum taxable income under section 55, the deduction under subsection (a) for property to

1 which paragraph (1) applies shall be determined
2 under this section without regard to any adjustment
3 under section 56.

4 “(4) QUALIFIED RURAL INVESTMENT PROP-
5 ERTY DEFINED.—For purposes of this subsection—

6 “(A) IN GENERAL.—The term ‘qualified
7 rural investment property’ means property
8 which is property described in the table in para-
9 graph (2) and which is—

10 “(i) used by the taxpayer predomi-
11 nantly in the active conduct of a trade or
12 business within a qualified rural invest-
13 ment project,

14 “(ii) not used or located outside the
15 qualified rural investment project on a reg-
16 ular basis,

17 “(iii) not acquired (directly or indi-
18 rectly) by the taxpayer from a person who
19 is related to the taxpayer (within the
20 meaning of section 465(b)(3)(C)), and

21 “(iv) not property (or any portion
22 thereof) placed in service for purposes of
23 operating any facility described in section
24 144(c)(6)(B).

1 “(B) EXCEPTION FOR ALTERNATIVE DE-
2 PRECIATION PROPERTY.—The term ‘qualified
3 rural investment property’ does not include any
4 property to which the alternative depreciation
5 system under subsection (g) applies, deter-
6 mined—

7 “(i) without regard to subsection
8 (g)(7) (relating to election to use alter-
9 native depreciation system), and

10 “(ii) after the application of section
11 280F(b) (relating to listed property with
12 limited business use).

13 “(C) SPECIAL RULE FOR INFRASTRUCTURE
14 INVESTMENT.—

15 “(i) IN GENERAL.—Subparagraph
16 (A)(ii) shall not apply to qualified infra-
17 structure property located outside of the
18 qualified rural investment project if the
19 purpose of such property is to connect with
20 qualified infrastructure property located
21 within such project.

22 “(ii) QUALIFIED INFRASTRUCTURE
23 PROPERTY.—For purposes of this subpara-
24 graph, the term ‘qualified infrastructure
25 property’ means qualified rural investment

1 property (determined without regard to
2 subparagraph (A)(ii)) which—

3 “(I) benefits the qualifying coun-
4 ty infrastructure,

5 “(II) is available to the general
6 public, and

7 “(III) is placed in service in con-
8 nection with the taxpayer’s active con-
9 duct of a trade or business within a
10 qualified rural investment project.

11 Such term includes, but is not limited to,
12 roads, power lines, water systems, railroad
13 spurs, and communications facilities.

14 “(5) DEFINITIONS.—For purposes of this sub-
15 section, any term used in this section which is used
16 in section 42A shall have the meaning given such
17 term by section 42A.”.

18 (b) EFFECTIVE DATE.—The amendment made by
19 this section shall apply to property placed in service after
20 December 31, 2002.

1 **TITLE III—NEW HOMESTEAD**
 2 **VENTURE CAPITAL FUND**

3 **SEC. 301. NEW HOMESTEAD VENTURE CAPITAL FUND.**

4 The Consolidated Farm and Rural Development Act
 5 (7 U.S.C. 1921 et seq.) is amended by adding at the end
 6 the following:

7 **“Subtitle G—New Homestead**
 8 **Venture Capital Fund**

9 **“SEC. 383A. SHORT TITLE.**

10 “‘This subtitle may be cited as the ‘New Homestead
 11 Venture Capital Fund Act’.

12 **“SEC. 383B. DEFINITIONS.**

13 “‘In this subtitle:

14 “(1) **AUTHORIZED PRIVATE INVESTOR.**—The
 15 term ‘authorized private investor’ means an indi-
 16 vidual, legal entity, or affiliate or subsidiary of an
 17 individual or legal entity that—

18 “(A) is eligible to receive a loan guarantee
 19 under this title;

20 “(B) is eligible to receive a loan guarantee
 21 under the Rural Electrification Act of 1936 (7
 22 U.S.C. 901 et seq.);

23 “(C) is created under the National Con-
 24 sumer Cooperative Bank Act (12 U.S.C. 3011
 25 et seq.);

1 “(D) is an insured depository institution
2 subject to section 383D(b)(2);

3 “(E) is a Farm Credit System institution
4 described in section 1.2(a) of the Farm Credit
5 Act of 1971 (12 U.S.C. 2002(a)); or

6 “(F) is determined by the Board to be an
7 appropriate investor in the Fund.

8 “(2) BOARD.—The term ‘Board’ means the
9 board of directors of the Fund established under
10 section 383F.

11 “(3) FUND.—The term ‘Fund’ means the New
12 Homestead Venture Capital Fund established under
13 section 383C.

14 “(4) GROUP OF SIMILAR AUTHORIZED PRIVATE
15 INVESTORS.—The term ‘group of similar authorized
16 private investors’ means any 1 of the following:

17 “(A) Insured depository institutions with
18 total assets of more than \$250,000,000.

19 “(B) Insured depository institutions with
20 total assets equal to or less than \$250,000,000.

21 “(C) Farm Credit System institutions de-
22 scribed in section 1.2(a) of the Farm Credit Act
23 of 1971 (12 U.S.C. 2002(a)).

24 “(D) Cooperative financial institutions
25 (other than Farm Credit System institutions).

1 “(E) Authorized private investors, other
2 than those described in subparagraphs (A)
3 through (D).

4 “(F) Other nonprofit organizations, includ-
5 ing credit unions.

6 “(5) INSURED DEPOSITORY INSTITUTION.—The
7 term ‘insured depository institution’ means any bank
8 or savings association the deposits of which are in-
9 sured under the Federal Deposit Insurance Act (12
10 U.S.C. 1811 et seq.).

11 “(6) QUALIFYING COUNTY.—The term ‘quali-
12 fying county’ means any county that—

13 “(A) is located outside a metropolitan sta-
14 tistical area (as defined by the Office of Man-
15 agement and Budget); and

16 “(B) during the 20-year period ending
17 with the fiscal year preceding the applicable fis-
18 cal year for which assistance is made available
19 under section 383E, has a net outmigration of
20 inhabitants from the county of at least 10 per-
21 cent of the population of the county at the be-
22 ginning of the period.

23 “(7) RURAL BUSINESS.—The term ‘rural busi-
24 ness’ means a rural cooperative, a value-added agri-

1 cultural enterprise, or any other enterprise that is or
2 will be located in a qualifying county.

3 **“SEC. 383C. ESTABLISHMENT OF THE FUND.**

4 “(a) IN GENERAL.—

5 “(1) AUTHORITY TO ESTABLISH.—Upon certifi-
6 cation by the Secretary that, to the maximum extent
7 practicable, the parties proposing to establish a fund
8 provide a broad representation of all of the groups
9 of similar authorized private investors described in
10 subparagraphs (A) through (F) of section 383B(4),
11 the parties so certified may establish, a non-Federal
12 entity under State law, to purchase shares of, and
13 manage a fund to be known as the ‘New Homestead
14 Venture Capital Fund’, to generate and provide eq-
15 uity capital to rural businesses.

16 “(2) OWNERSHIP.—

17 “(A) IN GENERAL.—To the maximum ex-
18 tent practicable, equity ownership of the Fund
19 shall be distributed among authorized private
20 investors representing all of the groups of simi-
21 lar authorized private investors described in
22 subparagraphs (A) through (F) of section
23 383B(4).

24 “(B) EXCLUSION OF GROUPS.—No group
25 of similar authorized private investors shall be

1 excluded from equity ownership of the Fund
2 during any period during which the Fund is in
3 existence if an authorized private investor rep-
4 resentative of the group is able and willing to
5 invest in the Fund.

6 “(b) PURPOSE.—The purpose of the Fund is to
7 strengthen the economies of qualifying counties by—

8 “(1) making needed investments in qualifying
9 counties to reverse the devastating impact of chronic
10 outmigration and to help the qualifying counties re-
11 build and grow;

12 “(2) providing equity funding for existing and
13 startup rural businesses with high potential for job
14 creation that are or will be located in qualifying
15 counties;

16 “(3) offering the funding described in para-
17 graph (2) to rural businesses, many of which have
18 difficulty obtaining equity capital;

19 “(4) authorizing use of the funding described in
20 paragraph (2) only after State and local govern-
21 ments match a significant portion of the funding;

22 “(5) requiring a portion of the funding de-
23 scribed in paragraph (2) to be used for technical and
24 other similar assistance to rural businesses; and

1 “(6) providing incentives to greater participa-
 2 tion by authorized private investors through provi-
 3 sion of guarantees of up to 60 percent of the invest-
 4 ments of the authorized private investors in quali-
 5 fying counties.

6 “(c) ARTICLES OF INCORPORATION AND BY-LAWS.—
 7 The articles of incorporation and by-laws of the Fund shall
 8 set forth purposes of the Fund that are consistent with
 9 the purposes described in subsection (b).

10 **“SEC. 383D. INVESTMENT IN THE FUND.**

11 “(a) IN GENERAL.—The Secretary shall—

12 “(1) subject to subsection (b)(1), make avail-
 13 able to the Fund \$200,000,000 for each of fiscal
 14 years 2003 through 2012;

15 “(2) subject to subsection (c), guarantee a por-
 16 tion of each investment made by an authorized pri-
 17 vate investor in the Fund; and

18 “(3) subject to subsection (d), guarantee the re-
 19 payment of principal of, and accrued interest on, de-
 20 bentures issued by the Fund to authorized private
 21 investors.

22 “(b) NON-FEDERAL FUNDS.—

23 “(1) IN GENERAL.—Under subsection (a)(1),
 24 the Secretary shall make an amount available to the
 25 Fund for a fiscal year only after—

1 “(A) at least \$50,000,000 has been in-
2 vested in the Fund for the fiscal year by au-
3 thorized private investors in accordance with
4 this subtitle and the terms and conditions set
5 forth in the by-laws of the Fund; and

6 “(B) at least \$50,000,000 has been in-
7 vested in the Fund for the fiscal year by State
8 and local governments.

9 “(2) INSURED DEPOSITORY INSTITUTIONS.—

10 “(A) IN GENERAL.—Subject to subpara-
11 graphs (B) and (C)—

12 “(i) an insured depository institution
13 may be an authorized private investor in
14 the Fund; and

15 “(ii) an investment in the Fund may
16 be considered to be part of the record of
17 an institution in meeting the credit needs
18 of the community in which the institution
19 is located under any applicable Federal
20 law.

21 “(B) INVESTMENT LIMIT.—The total in-
22 vestment in the Fund of an insured depository
23 institution shall not exceed 5 percent of the in-
24 stitution’s capital and surplus.

1 “(C) REGULATORY AUTHORITY.—An ap-
2 propriate Federal banking agency may, by regu-
3 lation or order, impose on any insured deposi-
4 tory institution investing in the Fund, any safe-
5 guard, limitation, or condition (including an in-
6 vestment limit that is lower than the investment
7 limit under subparagraph (B)) that the Federal
8 banking agency considers to be appropriate to
9 ensure that the institution operates—

10 “(i) in a financially sound manner;

11 and

12 “(ii) in compliance with all applicable
13 law.

14 “(c) GUARANTEE OF PRIVATE INVESTMENTS.—

15 “(1) IN GENERAL.—The Secretary shall guar-
16 antee, under terms and conditions determined by the
17 Secretary—

18 “(A) except as provided in subparagraph
19 (B), 40 percent of any loss of the principal of
20 each investment made by an authorized private
21 investor in the Fund; and

22 “(B) 60 percent of any loss of the prin-
23 cipal of each investment made by an authorized
24 private investor in the Fund if the investment

1 is used for a manufacturing or high-technology
2 business.

3 “(2) MAXIMUM TOTAL GUARANTEE.—The ag-
4 gregate potential liability of the Secretary with re-
5 spect to all guarantees under paragraph (1) shall
6 not apply to more than \$500,000,000 in private in-
7 vestments in the Fund.

8 “(3) REDEMPTION OF GUARANTEE.—

9 “(A) DATE.—An authorized private inves-
10 tor in the Fund may redeem a guarantee under
11 paragraph (1), with respect to the total invest-
12 ments in the Fund and the total losses of the
13 authorized private investor as of the date of re-
14 demption—

15 “(i) on the date that is 5 years after
16 the date of the initial investment of the au-
17 thorized private investor; or

18 “(ii) annually thereafter.

19 “(B) EFFECT OF REDEMPTION.—On re-
20 demption of a guarantee under subparagraph
21 (A)—

22 “(i) the shares in the Fund of the au-
23 thorized private investor shall be redeemed;
24 and

1 “(ii) the authorized private investor
2 shall be prohibited from making any future
3 investment in the Fund.

4 “(d) DEBENTURES.—

5 “(1) IN GENERAL.—The Fund may, at the dis-
6 cretion of the Board, raise additional capital through
7 the issuance of debentures and through other means
8 determined to be appropriate by the Board.

9 “(2) GUARANTEE OF DEBT BY SECRETARY.—

10 “(A) IN GENERAL.—The Secretary shall
11 guarantee 100 percent of the principal of, and
12 accrued interest on, debentures issued by the
13 Fund that are approved by the Secretary.

14 “(B) MAXIMUM DEBT GUARANTEED BY
15 SECRETARY.—The outstanding value of debentures
16 issued by the Fund and guaranteed by
17 the Secretary shall not exceed the lesser of—

18 “(i) the amount equal to twice the
19 value of the assets held by the Fund; or

20 “(ii) \$500,000,000.

21 “(C) RECAPTURE OF GUARANTEE PAY-
22 MENTS.—If the Secretary makes a payment on
23 a debenture issued by the Fund as a result of
24 a guarantee of the Secretary under this para-

1 graph, the Secretary shall have priority over
 2 other creditors for repayment of the debenture.

3 “(3) AUTHORIZED PRIVATE INVESTORS.—An
 4 authorized private investor may purchase debentures
 5 issued by the Fund.

6 **“SEC. 383E. INVESTMENTS AND OTHER ACTIVITIES OF THE**
 7 **FUND.**

8 “(a) INVESTMENTS.—

9 “(1) IN GENERAL.—

10 “(A) TYPES.—Subject to subparagraphs
 11 (B) and (C), the Fund may—

12 “(i) make equity investments in a
 13 rural business that meets the requirements
 14 of paragraph (6) and such other require-
 15 ments as the Board may establish; and

16 “(ii) extend credit to such rural busi-
 17 ness in—

18 “(I) the form of mezzanine debt,
 19 convertible debt, or subordinated debt;
 20 or

21 “(II) any other form of near-eq-
 22 uity debt.

23 “(B) LIMITATIONS ON EQUITY INVEST-
 24 MENTS.—After the initial equity investment in
 25 a rural business described in subparagraph

1 (A)(i), the Fund may not make additional eq-
2 uity investments in such rural business if the
3 additional equity investments would result in
4 the Fund owning more than 30 percent of the
5 equity of such rural business.

6 “(C) LIMITATION ON NONEQUITY INVEST-
7 MENTS.—Except in the case of a project to as-
8 sist a rural cooperative, the total amount of
9 nonequity investments described in subpara-
10 graph (A)(ii) that may be provided by the Fund
11 shall not exceed 20 percent of the total invest-
12 ments of the Fund in the project.

13 “(2) PROCEDURES.—The Fund shall implement
14 procedures to ensure that—

15 “(A) the financing arrangements of the
16 Fund meet the Fund’s primary focus of pro-
17 viding equity capital; and

18 “(B) the Fund does not compete with con-
19 ventional sources of credit.

20 “(3) DIVERSITY OF PROJECTS.—The Fund—

21 “(A) shall seek to make equity investments
22 in a variety of viable projects for rural busi-
23 nesses, with a significant share of invest-
24 ments—

1 “(i) in manufacturing or high-tech-
2 nology businesses of diverse sizes;

3 “(ii) in smaller projects in rural com-
4 munities of diverse sizes; and

5 “(iii) in cooperative and noncoopera-
6 tive businesses; and

7 “(B) shall be managed in a manner that
8 diversifies the risks to the Fund among a vari-
9 ety of projects.

10 “(4) LIMITATION ON RURAL BUSINESSES AS-
11 SISTED.—The Fund shall not invest in any rural
12 business that—

13 “(A) is primarily retail in nature (as deter-
14 mined by the Board), other than a purchasing
15 cooperative, or

16 “(B) consists of the operation of any facil-
17 ity described in section 144(c)(6)(B).

18 “(5) INTEREST RATE LIMITATIONS.—Returns
19 on investments in and by the Fund, and returns on
20 the extension of credit by participants in projects as-
21 sisted by the Fund, shall not be subject to any State
22 or Federal law establishing a maximum allowable in-
23 terest rate.

24 “(6) REQUIREMENTS FOR RECIPIENTS.—

1 “(A) OTHER INVESTMENTS.—Any recipi-
2 ent of amounts from the Fund shall make or
3 obtain a significant investment from a source of
4 capital other than the Fund.

5 “(B) SPONSORSHIP.—To be considered for
6 an equity investment from the Fund, a rural
7 business investment project shall be sponsored
8 by a regional, State, or local sponsoring or en-
9 dorsing organization such as—

10 “(i) a financial institution;

11 “(ii) a development organization; or

12 “(iii) any other established entity en-
13 gaging or assisting in rural business devel-
14 opment, including a rural cooperative.

15 “(b) TECHNICAL ASSISTANCE.—The Board shall use
16 not less than 2 percent of capital provided by the Federal
17 Government to provide technical assistance to rural busi-
18 nesses seeking an equity investment from the Fund.

19 “(c) ANNUAL AUDIT.—

20 “(1) IN GENERAL.—The Board shall authorize
21 an annual audit of the financial statements of the
22 Fund by a nationally recognized auditing firm using
23 generally accepted accounting procedures.

1 “(2) AVAILABILITY OF AUDIT RESULTS.—The
2 results of the audit required by paragraph (1) shall
3 be made available to investors in the Fund.

4 “(d) ANNUAL REPORT.—The Board shall prepare
5 and make available to the public an annual report that—

6 “(1) describes the projects funded with amounts
7 from the Fund;

8 “(2) specifies the recipients of amounts from
9 the Fund;

10 “(3) specifies the co-investors in all projects
11 that receive amounts from the Fund; and

12 “(4) meets the reporting requirements, if any,
13 of the State under the law of which the Fund is es-
14 tablished.

15 “(e) OTHER AUTHORITIES.—

16 “(1) IN GENERAL.—The Board may exercise
17 such other authorities as are necessary to carry out
18 this subtitle.

19 “(2) OVERSIGHT.—The Secretary shall enter
20 into a contract with the Administrator of the Small
21 Business Administration under which the Adminis-
22 trator of the Small Business Administration shall be
23 responsible for the routine duties of the Secretary in
24 regard to the Fund.

1 **“SEC. 383F. GOVERNANCE OF THE FUND.**

2 “(a) IN GENERAL.—The Fund shall be governed by
3 a board of directors that represents all of the authorized
4 private investors in the Fund and the Federal Government
5 and that consists of—

6 “(1) a designee of the Secretary;

7 “(2) 2 members who are appointed by the Sec-
8 retary and are not Federal employees, including—

9 “(A) 1 member with expertise in venture
10 capital investment; and

11 “(B) 1 member with expertise in coopera-
12 tive development;

13 “(3) 1 member who is appointed by the Sec-
14 retary and is a State government representative
15 from among States with the highest rates of out-
16 migration from qualifying counties; and

17 “(4) 7 members who are elected by the author-
18 ized private investors with investments in the Fund,
19 of whom not less than 1 member shall be a rural
20 community banker from an insured depository insti-
21 tution with total assets equal to or less than
22 \$250,000,000 with an investment in the Fund.

23 “(b) LIMITATION ON VOTING CONTROL.—No indi-
24 vidual investor or group of similar authorized private in-
25 vestors may control more than 25 percent of the votes on
26 the Board.

1 **“SEC. 383G. AUTHORIZATION OF APPROPRIATIONS.**

2 “There are authorized to be appropriated such sums

3 as are necessary to carry out this subtitle.”.

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